

## Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 IO-10 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-02

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00

OMB-01 /111 W

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R 140905Z MAY 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 114

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

US MISSION OECD PARIS

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PASS TREASURY, FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN JA

SUBJ: RUMORS OF FURTHER CUT IN BOJ DISCOUNT RATE

REF: A. TOKYO 5920; B. TOKYO 5012

SUMMARY: REPORTS OF LIKELY SECOND REDUCTION IN DISCOUNT  
RATE WITHIN NEXT FEW WEEKS APPEAR TO BE EXAGGERATED.  
END SUMMARY.

1. MAY 14 MORNING EDITION OF NIHON KEIZAI REPORTS THAT A  
REDUCTION IN BOJ DISCOUNT RATE HAS BEEN "VIRTUALLY DECIDED."  
REPORT SAYS THAT, CONTRARY TO USUAL PRACTICE, BANK RATE  
REDUCTION WOULD NOT BE ACCOMPANIED BY A LOWERING OF INTEREST  
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RATES PAID ON BANK DEPOSITS. THE DECISION ON THE DISCOUNT

RATE IS REPORTEDLY EXPECTED IN LATE MAY OR EARLY JUNE AND WILL DEPEND ON PRICE DEVELOPMENTS AND STAGNANT FACTORY SHIPMENTS (STATISTICS FOR WHICH ARE TO BE RELEASED AT THE END OF THIS MONTH).

2. IN RESPONSE TO ASST FINATT QUESTION REGARDING NIHON KEIZAI ARTICLE, KNOWLEDGEABLE BOJ SOURCE SAID REPORT IS "ABOUT ONE-HALF CORRECT," AND GAVE FOLLOWING ACCOUNT OF CURRENT SITUATION. THE POSSIBILITY OF A BOJ POLICY BOARD DECISION TO LOWER THE DISCOUNT RATE HAS INCREASED RECENTLY. BOJ GOV MORINAGA IS BECOMING ISOLATED AS PRIVATE BANK AND INDUSTRY REPS ON THE BOARD REFLECT GROWING PRESSURE TO TAKE STEPS TO HASTEN ECONOMIC RECOVERY. BOJ SOURCE THINKS DEPUTY PM FUKUDA HAS SHIFTED HIS VIEWS SLIGHTLY WITHIN PAST TEN DAYS. ALTHOUGH CONTINUING TO ADVOCATE A SLOWER RATE OF ECONOMIC GROWTH IN PRINCIPLE (REF A) FUKUDA APPARENTLY DOES NOT WANT THE CURRENT RECESSION TO DRAG ON MUCH LONGER. ACCORDING TO THIS INTERPRETATION, A REDUCTION IN THE BANK RATE (WHICH WOULD PROBABLY NOT HAVE A MAJOR ECONOMIC IMPACT) MIGHT APPEASE THOSE GROUPS WHO CLAIM GOJ ISN'T DOING ENOUGH TO HELP ECONOMIC RECOVERY. BOJ SOURCE SAID DOMINANT VIEW OF CENTRAL BANK STAFF IS THAT REAL KEY TO ECONOMIC UPTURN IS ATTITUDES OF CONSUMERS (AVERAGE PROPENSITY TO SAVE HAS REMAINED AT HIGH LEVELS FOR SEVERAL MONTHS (REF B)). THE STAFF (WHICH IS MUCH MORE CONCERNED ABOUT A POSSIBLE REVIVAL OF INFLATION) DOES NOT THINK CUT IN THE OFFICIAL DISCOUNT RATE WILL HAVE EVEN A PSYCHOLOGICAL IMPACT UPON CONSUMER BEHAVIOR.

3. MOF REP TO BOJ POLICY BOARD DECLINED COMMENT ON NIKKEI STORY, POINTING OUT TO ASST FINATT THAT BOARD DISCUSSIONS ARE CONFIDENTIAL. NOTING NIHON KEIZAI'S WELL-KNOWN ADVOCACY OF A REDUCTION IN THE BANK RATE, MOF OFFICIAL SPECULATED THAT THE ARTICLE MAY HAVE BEEN TIMED TO FOLLOW BOJ POLICY BOARD MEETING OF THE PREVIOUS DAY. IN FACT, HE SAID, DISCOUNT RATE HAD NOT BEEN AN ISSUE IN THAT BOARD MEETING. IN RESPONSE TO QUESTION ABOUT RECENT CHANGES IN VIEWS OF DEPUTY PM FUKUDA, OFFICIAL POINTED TO RECENT FUKUDA PRESS STATE-LIMITED OFFICIAL USE

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MENT THAT ECONOMY SHOULD NOT BE ALLOWED TO REMAIN ON A LOW PLATEAU BEYOND THE SUMMER. THIS WAS SEEN AS A SLIGHT MODIFICATION OF FUKUDA'S EARLIER OUTLOOK. OFFICIAL SAID THAT IN HIS VIEW ECONOMY CONTINUES TO EXHIBIT INFLATIONARY PRESSURES WHICH WOULD REQUIRE DEMAND RESTRAINT THROUGH SEPTEMBER.

4. EMBASSY COMMENT: FOR SOME TIME, NIHON KEIZAI STAFF HAS BEEN BEATING THE DRUMS FOR A FURTHER REDUCTION IN THE DISCOUNT RATE. LATEST STORY APPEARS TO OVERSTATE DEGREE TO WHICH A CONSENSUS HAS BEEN REACHED BY GOJ FOR A FURTHER REDUCTION. UNDOUBTEDLY THE DISCOUNT RATE HAS BEEN DISCUSSED BY BOJ BOARD RECENTLY. HOWEVER, AS LONG AS GOV MORINAGA CONTINUES TO RESIST A CUT THE DISCOUNT RATE WILL REMAIN UNCHANGED. FUKUDA'S RECENT SHIFT IN POLICY MAY REFLECT NOT ONLY THE STAGNATION IN DEMAND BUT ALSO HIS DESIRE TO MAINTAIN THE SUPPORT OF THE JAPANESE BUSINESS COMMUNITY FOR HIS OWN POLITICAL REASONS.  
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